

The New Chinese Environment
by Brendan Vaughan

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To do business in China, companies can no longer ignore their effect on the country's water and air.

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Just a few years ago, multinational corporations enjoyed a reputation in China as models of environmentally conscious manufacturing; not only did U.S., European, and Japanese firms offer the best jobs with the best pay, they also ran factories that generated far less pollution than their Chinese counterparts. That, at least, was the conventional wisdom. Those days are over.

“There’s been a fundamental shift in the way that multinationals are viewed in China,” says Elizabeth Economy, C.V. Starr senior fellow and director for Asia studies at the Council on Foreign Relations and an authority on China’s environmental crisis. “As China’s environment has become more polluted, as the people have been protesting more and more about the environmental situation, both nongovernmental organizations and the Chinese government have begun to accuse multinationals of exporting their most polluting businesses to China and of not, in fact, employing the best environmental practices and technologies.”

How did this change in attitude occur? First, the reality was always more complicated than the perception. The Chinese government’s enforcement of environmental regulations has been spotty for decades, a fact that some multinationals undoubtedly exploited. For example, the Tianshui Benma Brewery Company, an

affiliate of the Danish firm Carlsberg, had been discharging untreated wastewater into rivers in Gansu province since at least the mid-1990s before the local authorities finally cracked down in 2006.

For the most part, however, GDP-obsessed Chinese officials were happy to look the other way, and China’s environmental movement hadn’t yet seized the world’s attention. But as China’s environment worsened — 760,000 Chinese die prematurely each year as a result of air and water pollution, according to a World Bank report published in 2007 — the crisis became a major international news story. Embarrassed by the coverage and by the implicit (or sometimes explicit) charges that the Chinese government was doing little to improve the situation, authorities felt pressured to respond, especially with the Beijing Olympics approaching. And despite the fact that factories run by multinationals represent a tiny fraction of all manufacturing in China, big foreign firms provided a large target, which helped to take the bull’s-eye off the back of Chinese authorities. Hence, these companies bore a disproportionate brunt of the criticism. The same bureaucrats who welcomed multinationals for the jobs they brought to the country now blamed these companies for China’s dirty water, toxic air, and other environmental woes.

At the same time, environmental NGOs like

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Greenpeace Beijing; the Institute of Public and Environmental Affairs (IPEA), founded by the journalist-turned-activist Ma Jun; and countless other groups were exploding in numbers, ambition, and influence. These organizations rank and rate companies on a variety of sustainability issues, such as their use of poisonous chemicals and how they dispose of their outdated computers. The NGOs typically then out the worst offenders through information campaigns on the Internet and via other media. These groups track Chinese companies as well as multinationals, but they tend to focus more on foreign corporations. That's not because multinationals pollute more than local firms. (On average, in fact, they pollute less.) It's because the NGOs get a lot more public relations bang for their buck by attacking multinationals. A poor environmental record for a big Chinese firm may make headlines in China, but the same misstep by a Fortune 500 firm is news worldwide. Last August, the IPEA made a splash when it released a list of 90 multinationals — including Hitachi, Unilever, General Motors, and Yum Brands, which owns Kentucky Fried Chicken and Pizza Hut — that it said have committed water-pollution violations since 2004. (GM and Unilever, among others, have since passed third-party audits and been removed from the list.)

All of these changes add up to business climate in which more environmental challenges — both real and perceived — are being posed in China than ever before. And yet there's no mass exodus of multinationals from the country, despite rising labor costs and heightened competition from Vietnam, the Philippines, and other emerging markets. The sheer size of China's labor force is likely to preserve the country's position as the most

important offshoring location for manufacturing for the foreseeable future. So, beginning with the assumption that your company is already in China or will be soon, here are some caveats about operating prudently there — and avoiding the kinds of environmental PR headaches (or bona fide accidents) that can cost plenty of energy, resources, time, and money to fix.

- **Don't stretch the rules — even though you'd probably get away with it.** This should go without saying but it needs to be said anyway: Don't do anything in China you wouldn't do in the U.S. or elsewhere. Few would admit it, of course, but lax enforcement of environmental rules and regulations were what attracted some foreign firms to China in the first place. Putting aside the dubious ethics for the moment, this is now simply bad business. “Double standards are not an option,” warns Ronald Haddock, a Shanghai-based partner with Booz & Company. You don't necessarily need to go as far as Mattel Inc., which hired the corporate-accountability gadfly and Baruch College business professor Prakesh Sethi to monitor environmental and working conditions in China and other developing nations. But companies need to make sure their factories in Shanghai meet the same standards as the ones in Sheboygan.

- **Study the water.** China has major environmental problems related to air pollution, soil erosion, and energy, but water poses far and away its most daunting challenge. There just isn't enough clean water. According to Greenpeace, China's industrial sector dumps more than 40 billion tons of untreated wastewater into rivers and lakes every year. As a result, only about 40 percent of the country's surface water is suitable for drinking. (The IPEA maintains a digital map of the country's water pollution; currently, multinationals with factories on the

map include Samsung, Whirlpool, and Motorola.) What this means for manufacturers is that in the most polluted areas, such as Jiangsu, Jiangxi, and Chongqing, there may not be enough clean water to run factories. Companies can minimize this issue by focusing on water availability in a costly (but necessary) environmental audit — an engineer's report that assesses the environmental issues and costs associated with a prospective factory site — which they should commission before deciding where to build.

- **Consider China's eco-cities.** At the central and local levels, China's government encourages multinationals to consider building in one of its so-called national model environmental cities. These are regions where the local government is making a concerted effort (for which it's rewarded by the national government) to make it easier for companies to run clean factories. "These cities ostensibly — but not always — rank in the top of China's environmental practices," says Elizabeth Economy. "That means that there's a commitment by the local government to doing the right thing. They're more likely to have wastewater treatment facilities in place. They're more likely to just, in general, have an enforcement capacity that is higher." Roughly 10 percent of China's cities have received the designation.

- **Keep the government informed.** In one sense, Chinese government officials are powerfully motivated to ignore any environmental regulations that hinder the key metric by which their performance is judged: GDP growth in their locality. (This applies at all five levels of China's political system: national, provincial, municipal, county, and township.) Yet the national leadership is now focused on improving the environment (and selling that story to the world), so local officials are increasing-

ly interested in demonstrating progress in their own jurisdictions. For this reason, it's critical that multinationals work with the local government on shared goals while simultaneously making sure the regional and national leadership is aware of their efforts. Jean-Michel Dumont, a senior executive at public relations firm Ruder Finn who has represented major firms in China for more than 20 years, recalls the story of a major client who received local kudos for its environmental efforts, only to be later mistakenly placed on a national blacklist. Keeping the central government in the loop, Dumont says, would have spared his client the considerable headache of unwinding the error.

- **Get to know your neighbors.** Environmental protests are hardly new in China. For years there has been small-scale unrest, sometimes violent, among rural workers enraged at the air and water pollution caused by local factories. But recently there has been a key shift in environmental activism from the country to the city, and from uneducated peasants to the urban elite. "This is the most important shift in terms of unrest right now," says Economy. In Shanghai, for example, hundreds took to the streets in January 2008 to protest a planned extension of the city's high-speed commuter train, voicing their fear that electromagnetic radiation from the train line could damage their health. In early May 2008, similar and very public complaints erupted over plans by China's state-run oil company to build a new ethylene plant 18 miles upstream from the southwestern city of Chengdu. These protests are notable not only for their white-collar participants but also for the increasing use of technology — cell phones, text messaging, and Weblogs — to publicize them. What's the lesson for business? China's environmental

movement is evolving from a grassroots rural phenomenon inspired primarily by health concerns to an urban movement in which property values, not-in-my-backyardism, and other economic issues are coming to the fore. Multinationals in China should study this evolution on a location-specific basis — and be prepared to respond to the increasingly complex methods and motivations of the movement.

Will China solve its massive environmental problems? That's far from clear. But this seems certain: Pressure on the government to show progress will only increase, as will scrutiny of multinationals doing business in the country. This summer, the Beijing Olympics will seize the world's attention, providing a once-in-a-generation opportunity for the environmental movement to plead its case to a rapt global audience. Multinationals operating in China should make their own Olympian efforts to ensure they're cited as part of the solution. +

Resources

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China Ministry of Environmental Protection Model Cities Web site: A list of Chinese urban areas designated to safeguard air and water resources, even as they encourage new industry. http://english.mep.gov.cn/inventory/Model_cities/

Institute of Public and Environmental Affairs Web site: Created by Chinese environmental crusader Ma Jun, this online map charts water pollution in the country. www.ipe.org.cn/english/index.jsp

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